MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BME1014 – INTRODUCTORY MICROECONOMICS

(All sections / Groups)

29 MAY 2017
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 2 pages with 5 Questions only.
2. Attempt **ALL** questions.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

a) Briefly explain the economic basis for the law of increasing marginal opportunity costs (10 marks)

b) What are the basic functions of the entrepreneur in an economy. (10 marks)

(Total: 20 marks)

QUESTION 2

a) Suppose a producer sells 1000 units of a product at RM5 per unit one year, 2000 units at RM8 the next year, and 3000 units at RM10 the third year. Is this evidence that the law of demand is violated? Explain. (10 marks)

b) Use demand and supply analysis to describe what will happen to price and quantity in a competitive market for a crop such as lettuce, or oranges, or tomatoes, when extreme weather destroys a large portion of the crop. (10 marks)

(Total: 20 marks)

QUESTION 3

a) Explain the meaning of perfectly elastic demand and perfectly inelastic demand. (10 marks)

b) The table below shows the marginal utility which a particular consumer would get by purchasing various quantities of products A, B, and C.

Unit of product	(1) Marginal utility, A	(2) Marginal utility, B	(3) Marginal utility, C
First	18	39	12
Second	16	36	10
Third	14	33	9
Fourth	12	30	8
Fifth	10	27	7
Sixth	8	24	5
Seventh	6	21	3

If the prices of A, B, and C are \$2, \$3, and \$1, respectively, and the consumer has RM32 to spend on these three products, what combination of the three products should be purchased in order to maximize utility? (10 marks)

(Total: 20 marks)

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QUESTION 4

a) With an appropriate diagram, explain the long-run equilibrium position of a competitive firm. (10 marks)

b) Why is price more than marginal revenue for every level of output except the first for a monopoly (10 marks)

(Total: 20 marks)

QUESTION 5

a) Briefly explain the reasons that make a monopolistic competitive firm to be a price maker. (5 marks)

b)

i) Complete the following table, where L is the units of labor, TP_L is the total product of labor, MP_L is the marginal product of labor, P is product price, TR is total revenue, and MRP_L is the marginal revenue product of labor.

L	TP_L	MP_L	P	TR	MRP_L
0	0		$1.00		
2	20	_____	1.00		
4	38	_____	1.00	_____	_____
6	54	_____	1.00	_____	_____
8	68	_____	1.00	_____	_____
10	80	_____	1.00	_____	_____
12	90	_____	1.00	_____	_____
14	98	_____	1.00	_____	_____
16	104	_____	1.00	_____	_____
18	108	_____	1.00	_____	_____
20	110	_____	1.00	_____	_____

(6 marks)

ii) In what type of market is the firm selling its product? (3 marks)

iii) Why does the MRP schedule decrease as labor increases? (3 marks)

iv) Complete the following table.

Wage rate	Quantity of workers employed
RM8	
7	_____
6	_____
5	_____
4	_____
3	_____

(3 marks)

(Total: 20 marks)

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